

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Charter Township of Larkin	County Midland
Fiscal Year End December 31, 2006	Opinion Date May 9, 2007	Date Audit Report Submitted to State May 23, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

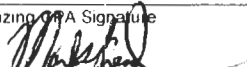
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Check each applicable box below (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Burnside & Lang, P.C.	Telephone Number (989) 835-7721		
Street Address 5915 Eastman Ave., Suite 100	City Midland	State MI	Zip 48640
Authorizing CPA Signature 	Printed Name Mark R. Freed, CPA, CSEP		License Number 1101012221

CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN

FINANCIAL STATEMENTS
For The Year Ended December 31, 2006

CHARTER TOWNSHIP OF LARKIN

BOARD OF TRUSTEES

Leonard Servinski	Supervisor
Kathy Moe	Treasurer
Lisa Johnson	Clerk
Scott Atton	Trustee
Karen Hitchcock	Trustee
James Snider	Trustee
Donna Harrington	Trustee

POPULATION-2000
4,514

STATE EQUALIZED VALUATION-2006
\$228,049,050

STATE TAXABLE VALUE-2006
\$208,941,307

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2006**

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Independent Auditors' Report

Members of the Township
Board of Trustees
Charter Township of Larkin
Midland County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Charter Township of Larkin, Midland County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Charter Township of Larkin, Midland County, Michigan, as of December 31, 2006, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 4 and 21, are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Burnside & Lang, P.C.

Midland, Michigan
May 9, 2007

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2006**

Using This Annual Report

This annual report of the Charter Township of Larkin (the "Township") consists of a series of financial statements. The Government-Wide Statement of Net Assets and the Government-Wide Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. The Governmental Fund financial statements of the Township tell how these services were financed in the short-term, as well as what remains for future spending. The Governmental Fund financial statements of the Township also report the Township's operations in more detail than the Government-Wide Statements of Net Assets and the Government-Wide Statements of Activities.

The Township As A Whole

The net assets of the Township increased by \$51,879 or 0.9% from the prior year, going from \$5,494.2 million to \$5,546.1 million. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) for the Township as of December 31, 2006 verses December 31, 2005.

	2006	2005
Current Assets	\$ 2,140.9	\$ 1,955.8
Noncurrent Assets	8,040.9	8,368.3
Total Assets	10,181.8	10,324.1
Liabilities	(4,635.7)	(4,829.9)
Net Assets		
Invested in Capital Assets	2,002.5	1,854.9
Restricted	3,143.3	3,409.2
Unrestricted	400.3	230.1
Total Net Assets	\$ 5,546.1	\$ 5,494.2

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2006**

The Township As A Whole (Continued)

Unrestricted net assets, the part of net assets that can be used to finance day to day operations, increased by \$170,153. The current level of unrestricted net assets for the Township stands at \$400,318, or about 45.5% of operating expenses. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating. The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	2006	2005
Program Revenues		
Charges for services	\$ 477.4	\$ 327.8
Grants and contributions	14.6	46.4
General Revenues		
Property taxes	299.1	190.6
City of Midland agreement	35.2	28.5
State revenue sharing	310.9	309.7
Interest earnings	26.7	183.3
Miscellaneous	51.8	38.8
Total Revenues	<u>1,215.7</u>	<u>1,125.1</u>
Program Expenses		
General government	295.6	265.3
Public safety	116.2	106.7
Public works	448.6	407.0
Community development	9.0	10.2
Recreation and culture	78.5	76.7
Interest and fiscal charges	216.0	234.7
Total Expenses	<u>1,163.9</u>	<u>1,100.6</u>
Change in Net Assets	<u>\$ 51.8</u>	<u>\$ 24.5</u>

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2006**

The Township As A Whole (Continued)

The Township's net assets continue to remain healthy as total revenues increased by 8% and expenses increased by only 6% over the previous year. As a result, net assets increased by \$51,879 this year compared to a \$24,491 decrease last year.

General Fund Budgetary Highlights

Over the course of the year the Township Board amended the general fund budget to take into account events during the year. Total expenditures in the budget were increased \$29,803 to \$752,066. The Township Board major project for 2006 consisted of setting up a Water 3 district, to supply the remainder of the Township (excluding a few roads) with city water and to also allow Mills Township to connect to the Larkin Charter Township water lines. The Township Board also received one local grant totaling \$10,000 for the Township Park. These funds were used to purchase playground equipment and also do some improvements to the grounds.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

CHARTER TOWNSHIP OF LARKIN
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2006

ASSETS

Cash and cash equivalents	\$ 1,088,871
Taxes receivable - current	309
Due from tax fund	856,199
Prepaid survey expenses	189,381
Other receivables	6,172
Assessments receivable - long-term	2,121,950
Capital assets:	
Land	77,600
Buildings and improvements, net	474,572
Township equipment, net	86,030
Fire department equipment, net	109,036
Fire department vehicles, net	383,747
Water system, net	4,788,007
Total capital assets	<u>5,918,992</u>
Total assets	<u>10,181,874</u>

LIABILITIES

Accounts payable	33,673
Accrued expenses	5,347
Deferred revenue	655,114
Due to other governmental units	20,013
Deposits and other liabilities	5,100
Long-term liabilities:	
Portion due or payable within one year:	
Bonds and contracts payable	378,125
Portion due or payable after one year:	
Bonds and contracts payable	3,495,001
Capital lease	43,388
Total liabilities	<u>4,635,761</u>

NET ASSETS

Invested in capital assets, net of related debt	2,002,478
Restricted for:	
Debt service	3,143,317
Unrestricted	400,318
Total net assets	<u>\$ 5,546,113</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF LARKIN
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006

Activities:	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General Government:					
Township board	\$ 12,920	\$ -	\$ -	\$ -	\$ (12,920)
Supervisor	15,841	-	-	-	(15,841)
Treasurer	34,284	6,040	-	-	(28,244)
Assessing	29,722	-	-	-	(29,722)
Clerk	26,204	-	-	-	(26,204)
Elections	10,215	-	-	-	(10,215)
Buildings and grounds	87,849	12,597	-	-	(75,252)
All other general government	78,612	-	14,660	-	(63,952)
Fire protection	95,558	-	-	-	(95,558)
Building inspection and regulation activities	20,659	24,463	-	-	3,804
Roads and drains	112,462	-	-	-	(112,462)
Water system	111,200	200,111	-	-	88,911
Sanitation, solid waste	224,909	234,225	-	-	9,316
Planning and zoning	9,036	-	-	-	(9,036)
Parks and recreation	19,947	-	-	-	(19,947)
Library	58,527	-	-	-	(58,527)
Interest and fiscal charges	215,973	-	-	-	(215,973)
Total governmental activities	\$ 1,163,918	\$ 477,436	\$ 14,660	\$ -	(671,822)
General revenues:					
Property taxes, levied for general purposes					299,115
Property tax agreement with the City of Midland					35,160
State revenue sharing					310,877
Interest earnings					26,746
Miscellaneous					51,803
Total general revenues					723,701
Change in net assets					51,879
Net assets-beginning					5,494,234
Net assets-ending					\$ 5,546,113

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF LARKIN
GOVERNMENTAL FUND BALANCE SHEET
December 31, 2006

	General Fund	Sanitation Fund	Water District 1 Debt Service Fund	Water District 2 Debt Service Fund	Water District 3 Debt Service Fund	Total
ASSETS						
Cash and cash equivalents	\$ 166,074	\$ 118,834	\$ 107,123	\$ 643,924	\$ 52,916	\$ 1,088,871
Taxes receivable, net	309	-	-	-	-	309
Assessment receivable, net	-	-	156,950	1,965,000	-	2,121,950
Due from other funds	380,911	211,140	19,464	244,684	-	856,199
Prepaid survey expenses	189,381	-	-	-	-	189,381
Other receivables	-	-	2,057	4,115	-	6,172
Total assets	\$ 736,675	\$ 329,974	\$ 285,594	\$ 2,857,723	\$ 52,916	\$ 4,262,882
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 8,892	\$ 24,781	\$ -	\$ -	\$ -	\$ 33,673
Accrued expenses	5,347	-	-	-	-	5,347
Due to other governmental units	20,013	-	-	-	-	20,013
Deposits and other liabilities	5,100	-	-	-	-	5,100
Deferred revenue	418,054	237,060	-	-	-	655,114
Total liabilities	457,406	261,841	-	-	-	719,247
Fund balances:						
Unreserved	279,269	68,133	285,594	2,857,723	52,916	3,543,635
Total fund balances	279,269	68,133	285,594	2,857,723	52,916	3,543,635
Total liabilities and fund balances	\$ 736,675	\$ 329,974	\$ 285,594	\$ 2,857,723	\$ 52,916	\$ 4,262,882

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF LARKIN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
December 31, 2006

Total fund balances for governmental funds (Exhibit 4) \$ 3,543,635

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 77,600	
Buildings and improvements, net of \$177,324 accumulated depreciation	474,572	
Township equipment, net of \$92,645 accumulated depreciation	86,030	
Fire department equipment, net of \$119,491 accumulated depreciation	109,036	
Fire department vehicles, net of \$270,333 accumulated depreciation	383,747	
Water system, net of \$584,497 accumulated depreciation	<u>4,788,007</u>	
Total capital assets		5,918,992

Long-term liabilities applicable to the Township's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.

Balances at December 31, 2006 are:

Midland County Water Supply System Bonds, Series 1997	\$ (300,000)	
Midland County Water Supply System Bonds, Series 1999	(3,425,000)	
Installment Purchase Contract, Township Office	(148,125)	
Capital Lease, Fire Truck	<u>(43,389)</u>	
		<u>(3,916,514)</u>

Total net assets of governmental activities (Exhibit 2) \$ 5,546,113

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF LARKIN
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES
For the Year Ended December 31, 2006

	General Fund	Sanitation Fund	Water District 1 Debt Service Fund	Water District 2 Debt Service Fund	Water District 3 Debt Service Fund	Total
REVENUES						
Property taxes	\$ 340,315	\$ -	\$ -	\$ -	\$ -	\$ 340,315
Licenses and permits	24,463	-	-	-	-	24,463
State aid	310,878	-	-	-	-	310,878
Charges for services	2,969	-	1,189	2,378	52,860	59,396
Interest and dividends	2,405	2,458	21,406	141,135	56	167,460
Rents and royalties	12,597	-	-	-	-	12,597
Special assessments	-	234,225	-	-	-	234,225
Donations and contributions	14,660	-	-	-	-	14,660
Miscellaneous	50,892	308	450	153	-	51,803
Total revenues	759,179	236,991	23,045	143,666	52,916	1,215,797
EXPENDITURES						
General government	271,459	-	-	-	-	271,459
Public safety	74,040	-	-	-	-	74,040
Public works	112,462	224,909	495	3,255	-	341,121
Community development	9,036	-	-	-	-	9,036
Recreation and culture	74,260	-	-	-	-	74,260
Capital outlay	34,965	-	-	-	-	34,965
Debt service	77,802	-	57,037	371,779	-	506,618
Total expenditures	654,024	224,909	57,532	375,034	-	1,311,499
Net change in fund balances	105,155	12,082	(34,487)	(231,368)	52,916	(95,702)
Fund balances-beginning	174,114	56,051	320,081	3,089,091	-	3,639,337
Fund balances-ending	\$ 279,269	\$ 68,133	\$ 285,594	\$ 2,857,723	\$ 52,916	\$ 3,543,635

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF LARKIN
RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006**

Net change in fund balances - total governmental funds (Exhibit 5)	\$ (95,702)
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$178,029) exceeded capital outlay (\$34,965) in the current period.	(143,064)
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Bond proceeds and capital leases are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Repayments:

Midland County Water Supply System Bonds, Series 1997	40,000	
Midland County Water Supply System Bonds, Series 1999	185,000	
Installment Purchase Contract, Township Office	24,036	
Capital Lease, Fire Truck	41,609	
	290,645	

Change in net assets of governmental activities (Exhibit 3)	\$ 51,879
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The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF LARKIN
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
CURRENT TAX FUND
December 31, 2006

ASSETS

Cash and cash equivalents	\$ 1,562,327
Taxes receivable	<u>2,391,329</u>
Total assets	<u>3,953,656</u>

LIABILITIES

Due to other funds	856,199
Due to other governmental units	<u>3,097,457</u>
Total liabilities	<u>3,953,656</u>

NET ASSETS

\$	<u><u>-</u></u>
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The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2006**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

A. Reporting Entity

The Township is governed by an elected seven-member board. The accompanying financial statements present the Township operations for which the government is considered to be financially accountable. The Township has no component units and is not responsible for any jointly governed organizations.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgements are recorded only when payment is due.

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2006**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgements are recorded only when payment is due.

The Township property tax is levied each December 1st on the taxable valuation of property (as defined by State statutes) located in the Township as of the preceding December 31st. Although the Township 2006 ad valorem tax is levied and collectible on December 1, 2006, it is the Township's policy to recognize revenue from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

The 2006 taxable valuation of the Township totaled \$299.1 million, on which ad valorem taxes levied consisted of 1.5 mills for Township operating purposes. This amount is recognized in the General Fund as current tax revenue.

The government reports the following major funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Sanitation Fund accounts for providing garbage and rubbish collection financed by an annual special assessment.

The Water District #1 and #2 Debt Service Funds account for the resources accumulated and payments made for principal and interest on general long-term debt associated with the construction of water systems within the Township.

Additionally, the government reports the following fund type:

The Current Tax Collection Fund is used to account for resources held by the Township in a purely custodial capacity. Money in this fund is from current tax and special assessment collections. Timely distribution to the appropriate fund and local unit must be made in accordance with Section 43 of the General Property Tax Act.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2006**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)**

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D. Assets, Liabilities, and Net Assets

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.”

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Prepaid Items—Certain payments to vendors reflect cost applicable to future years and are recorded as prepaid items in the government-wide and fund statements.

Capital Assets—Capital assets, which include property, plant, and equipment are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	25 to 40 years
Building improvements	25 to 40 years
Water systems	50 years
Fire apparatus	25 years
Fire equipment	5 to 25 years
Office equipment	5 to 25 years
Computer equipment	5 to 10 years

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2006**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets (Continued)

Long-Term Obligations—In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information—Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the debt service funds. All annual appropriations lapse at fiscal year end. The budget document presents information by fund, function, department or activity, and line items. The legal level of budgetary control adopted by the governing body is the department or activity level.

NOTE 3. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptances of United States banks' commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Township Board has designated two banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory as listed above.

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2006**

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

The Township's deposits and investment policy are in accordance with statutory authority.

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total
Cash and cash equivalents	\$ 1,088,871	\$ 1,562,327	\$ 2,651,198

The breakdown between deposits and investments is as follows:

Bank Deposits (checking and savings, certificates of deposit)	<u>\$ 2,651,198</u>
--	---------------------

The bank balance of the government deposits is \$2,651,198 of which \$200,000 is covered by federal deposit insurance.

Investment and Deposit Risk

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. The government does not have a deposit policy for custodial credit risk. At year end, the Township had \$2,451,198 of bank deposits (certificates of deposit, checking and savings accounts) that were potentially uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, that the Charter Township of Larkin will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the Township had no investments.

Interest Rate Risk. Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. State law limits the allowable investments and the maturities of some of the allowable investments. The Township's current investments have no potential interest rate risk.

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2006**

NOTE 4. CAPITAL ASSETS

Capital asset activity of the Township for the current year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 77,600	\$ -	\$ -	\$ 77,600
Capital Assets Being Depreciated				
Buildings and improvements	651,896	-	-	651,896
Township equipment	147,728	30,947	-	178,675
Fire department equipment	224,509	4,018	-	228,527
Fire department vehicles	654,080	-	-	654,080
Water system	5,372,504	-	-	5,372,504
Subtotal	7,050,717	34,965	-	7,085,682
Less Accumulated Depreciation for				
Buildings and improvements	159,976	17,348	-	177,324
Township equipment	80,256	12,389	-	92,645
Fire department equipment	104,812	14,679	-	119,491
Fire department vehicles	244,170	26,163	-	270,333
Water system	477,047	107,450	-	584,497
Subtotal	1,066,261	178,029	-	1,244,290
Net Capital Assets Being Depreciated	5,984,456	(143,064)	-	5,841,392
Governmental Activities Capital Assets–Net of Depreciation	\$ 6,062,056	\$ (143,064)	\$ -	\$ 5,918,992

Depreciation expense was charged to activities of the Township as follows:

General Government	\$ 24,187
Fire Protection	42,178
Water System	107,450
Parks and Recreation	4,214
	<u>\$ 178,029</u>

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2006**

NOTE 5. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The amount of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 380,911	Tax Collection	\$ 856,199
Sanitation	211,140		-
Water District #1	19,464		-
Water District #2	244,684		-
Total	<u>\$ 856,199</u>		<u>\$ 856,199</u>

NOTE 6. LEASES

Capital Lease – The Township has entered into a lease agreement as lessee for financing the purchase of a fire vehicle. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the net present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value is as follows:

<u>Year Ended December 31,</u>	
2007	\$ 45,245
Total Minimum Lease Payments	45,245
Less: Amount Representing Interest	<u>1,857</u>
	<u>\$ 43,388</u>

NOTE 7. LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties that directly benefitted from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2006**

NOTE 7. LONG-TERM DEBT (Continued)

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Balance 01-01-06</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12-31-06</u>
2001 Township Office, Installment Purchase Contract; due 6/1/2007	5.34%	\$ 172,162	\$ -	\$ 24,036	\$ 148,126
1999 Water Supply System Bonds; due 8/1/2016	4.0% to 7.0%	3,610,000	-	185,000	3,425,000
1997 Water Supply System Bonds; due 8/1/2016	4.0% to 5.25%	<u>340,000</u>	<u>-</u>	<u>40,000</u>	<u>300,000</u>
		<u>\$ 4,122,162</u>	<u>\$ -</u>	<u>\$ 249,036</u>	<u>\$ 3,873,126</u>

Scheduled principal maturities of long-term debt for years subsequent to December 31, 2006 are as follows:

<u>Year Ending December 31,</u>	
2007	\$ 378,125
2008	245,000
2009	250,000
2010	260,000
2011	265,000
Thereafter	<u>2,475,001</u>
	<u><u>\$ 3,873,126</u></u>

NOTE 8. RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The Township has purchased commercial insurance for these types of claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2006**

NOTE 9. PENSION PLAN

The Township provides pension benefits to members of the Township Board of Trustees, constables, building inspector, fire chief and custodian through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by Township ordinance 187, the Township contributes 8.5% of employee gross earnings and the employee contributes 8.5% of earnings.

In accordance with these requirements, the Township contributed \$8,421 during the current year and employees contributed \$11,125. The Township also incurred participant fees totaling \$3,066 which was charged to pension expenditures.

NOTE 10. URBAN COOPERATION ACT AGREEMENT

The Township has agreements with the City of Midland under the Urban Cooperation Act, which require these two units of government to share property taxes collected on real property annexed by the City of Midland and formerly within Larkin Township. Under the agreements, the City of Midland is required to pay Larkin Township a portion of ad valorem property taxes levied on the related property in amounts ranging from 1.0 to 2.0 mills of the state taxable valuations as of the date specified in the agreements and indexed by the rate of inflation for succeeding years. These agreements begin to expire on December 31, 2009. The Township received tax revenue totaling \$35,160 from these agreements during 2006.

NOTE 11. PREPAID EXPENSE

The Township has prepaid expenses of \$189,381 in the General Fund for survey costs incurred for a new water district. Approval of resolution at an April 11, 2006 board meeting designated a new Water District #3 fund and the related special assessment district. However, the Township has not moved forward with the bonding until litigation from a resident attempting to exempt his street is resolved. Upon settlement of litigation, Water District #3 will reimburse the prepaid expenses to the Township's General Fund, from the bond proceeds or assessments collected by the water district.

NOTE 12. RELATED PARTY TRANSACTIONS

The Township has snow plowing services performed by the Supervisor's family business, Servinski Sod; payments for services the year ended December 31, 2006 totaled \$2,580.

CHARTER TOWNSHIP OF LARKIN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes and related fees	\$ 333,950	\$ 333,950	\$ 340,315	\$ 6,365
Licenses and permits	21,000	21,000	24,463	3,463
State aid	312,200	312,200	310,878	(1,322)
Charges for services	4,613	4,613	2,969	(1,644)
Interest and dividends	3,500	3,500	2,405	(1,095)
Rents and royalties	9,000	9,000	12,597	3,597
Donations and contributions	-	-	14,660	14,660
Miscellaneous	38,000	38,000	50,892	12,892
Total revenues	722,263	722,263	759,179	36,916
EXPENDITURES				
General Government:				
Township board	13,540	13,540	12,920	620
Supervisor	16,500	16,500	15,841	659
Treasurer	34,730	34,730	34,048	682
Assessing	29,683	29,683	29,722	(39)
Clerk	26,725	26,725	26,204	521
Elections	11,550	11,550	10,215	1,335
Buildings and grounds	83,418	83,418	81,122	2,296
All other general government	63,650	63,650	61,387	2,263
Public Safety:				
Fire protection	56,743	56,743	53,381	3,362
Building inspection and regulation activities	21,102	21,102	20,659	443
Public Works:				
Roads and drains	178,469	178,469	112,462	66,007
Community Development:				
Planning and zoning	14,627	14,627	9,036	5,591
Recreation and Culture:				
Parks and recreation	15,950	15,950	15,733	217
Library	58,527	58,527	58,527	-
Capital Outlay:				
General government	15,500	15,500	3,635	11,865
Fire protection	6,200	6,200	4,018	2,182
Parks and recreation	27,350	27,350	27,312	38
Debt Service:				
Principal payments	65,645	65,645	65,645	-
Interest payments	12,157	12,157	12,157	-
Total expenditures	752,066	752,066	654,024	98,042
Net change in fund balances	(29,803)	(29,803)	105,155	134,958
Fund balances-beginning	174,114	174,114	174,114	-
Fund balances-ending	\$ 144,311	\$ 144,311	\$ 279,269	\$ 134,958

May 9, 2007

Members of the Township
Board of Trustees
Charter Township of Larkin
Midland County, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of Charter Township of Larkin, for the year ended December 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable condition. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

REPORTABLE CONDITIONS

General Ledger

The general ledger is the primary financial record of the Township and, as such, should reflect all financial activity. During our audit, we found it necessary to make several adjusting entries to the December 31, 2006 general ledger to reconcile all account balances with the necessary supporting documentation.

We recommend that the general ledger be monitored each month and any necessary adjustments be made so that all general ledger account balances agree with supporting documentation. By following this recommendation, the financial position as evidenced within the general ledger of the Township will more accurately reflect the operations for the period.

Improper Expenditure Recognition

During our audit, we noted various expenditures for the Fire Department incorrectly classified in both the Office Supplies and the Expenses/Mileage accounts. We found gas and lumber listed in the Office Supplies expenditure account and membership dues and fees listed in the Expenses/Mileage expenditure account. The proper detail accounts were not established for these expenditures.

We recommend that the proper expenditure account classifications be established, in accordance with the State of Michigan's Uniform Accounting Procedures Manual, and utilized to accurately reflect the expenditures made during the year. By following this recommendation, the Township general ledger will more accurately detail the use of funds for the period.

Significant Deficiencies in Internal Control

Financial Accounting and Reporting

Management relies on the Township's auditors to ensure the financial statements conform to generally accepted accounting principles ("GAAP"). Therefore, as a part of our engagement to audit the financial statements, we draft the financial statements and the related footnotes for approval by management and the finance committee of the board of directors. This is a conscious and practical approach to preparing the financial statements since the Township has determined that the costs to established internal controls over financial reporting and to develop the skills and knowledge of its personnel to apply generally accepted accounting principles in preparing the financial statements is greater than the risk of misstatements occurring in the financial statements. However, as a result of recently issued professional auditing standards, this situation meets the definition of a significant deficiency and a material weakness in internal control.

The interim financial statements and management reports are generally prepared on a comprehensive basis of accounting other than generally accepted accounting principles, i.e. the modified accrual basis. It appears that the interim financial reports received by management are appropriate in form and content thereby allowing management to make appropriate decisions regarding financial matters. Therefore, the control weakness over preparation of financial statements in conformity with GAAP is not a significant requirement of management.

We considered this internal control deficiency in planning the scope of our audit procedures and believe that we have appropriately addressed the risk of any misstatements in the audited financial statements. Therefore, due to the relative cost to eliminate the internal control deficiency over financial reporting in conformity with GAAP related to the risks involved and considering the audit procedures performed to address the risk of misstatements in the audited financial statements, we do not recommend any actions to address this weakness at this time. However, we do recommend that management routinely review the internal controls in place to prepare the interim financial reports to ensure accurate information is provided in those reports.

OTHER MATTERS

Financial Oversight

The general limitations in any smaller organizations like the Charter Township of Larkin requires that Township Board members continue to remain involved in the financial affairs of the Township through oversight of operation, development of the annual budget, inquiries about variances between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions. Based on inquiries, the Township performs these duties and our comment here is intended to emphasize the importance of the Township's oversight role.

Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the December 31, 2006, financial statements, and this report does not affect our report on those financial statements dated May 9, 2007. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the Township Board and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Burnside & Lang, P.C.

BURNSIDE & LANG, P.C.